

Statement of Cindy Siddoway
President
American Sheep Industry Association (ASI)
before the
Committee on Agriculture
U.S. House of Representatives
Washington, D.C.
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On behalf of the nation's sheep and goat producers, I want to personally thank you Chairman Combest and Congressman Stenholm for holding these much needed hearings. I appreciate the opportunity you have provided to discuss the U.S. industry's recommended program for the upcoming Farm Bill.

As you are well aware, due to the Committee's active support of recent emergency measures to assist our industry, and your discussions with sheep producers across the country during the committee's field hearings in 2000, these are very trying times in our industry.

While presenting for the record the economic situation facing America's sheep and goat industries, we are also providing the Committee with specific recommendations of a program that will assist American farmers and ranchers.

As much of agriculture today is in a very serious economic situation, so is the nation's sheep industry. The wool market worldwide is severely depressed with the average price of U.S. wool falling from 38 cents per pound in 1999 to 33 cents in 2000, the lowest price in well over a decade and one of the worst in history. The majority of wool prices available do not even cover the cost of shearing the sheep, much less the transportation and testing expenses. In fact, thousands of producers have been storing one to three years of wool production due to depressed prices. A large portion of the wool in storage in the U.S. has moved back into the market place during the past year due to the need for revenue for the sheep operations and we believe also due to the emergency payments for the 1999 wool clip. A portion of the wool production particularly in the midwest was simply discarded or given away as the market price was less than transportation costs to a warehouse or wool pool location in order to sell the product. This is an extremely frustrating situation for those producers.

Wool has historically represented 5 to 20 percent of U.S. sheep operation revenue depending on quality and volume of the clip, but when wool becomes an expense versus income, it affects the entire operation. Loss of five percent of income often means the difference between profit and loss for farms and ranches.

The wool market depression is readily apparent in all wool producing countries. Excess production in countries such as Australia with an enormous stockpile of wool which depressed the market throughout the 1990's, and increased competition from chemical fibers in textile production have been two key factors. A third factor for American wool prices has been the strength of the U.S. dollar. Three factors, American growers have no control over.

Likewise, the mohair industry has experienced stagnant market conditions during the last 6 years. While sheep operations expect 20 percent or less of the operating revenue to be derived from the sale of wool, mohair producers on average generate 75% of their gross income from the sale of the mohair fiber. Unlike sheep, Angora goats are primarily fiber producers, and a much smaller percentage of the gross revenue is generated from the sale of live animals for meat consumption. Thus, the impact of the depressed market prices for mohair during the last 6 years has caused mohair production to decline from 13 million lbs. in 1995 to a projected 2.75 million lbs. for calendar year 2001.

Although the "average" market price for mohair during the specified period has been below cost of production, the mohair market during the last 18 months has seen an increase in market price for the finer grades of over 300%. This has resulted in approximately 40% of the clip selling at modest profits while the remainder of the clip remains unsold and in storage. Some producers have chosen to sell their clip for prices well below the cost of production. Thus, 60% of the total clip is still being marketed at below the cost of production. The higher prices have reduced the decline in mohair production throughout the US. Historical trends have shown that as finer mohair escalates in price, the coarser grades begin to sell at a premium in due time. Thus, producers are hopeful that the upward trend in market prices will eventually result in a market price for adult that will surpass cost of production.

This market crisis underscores the importance of the emergency market loss assistance provided for the 1999 and 2000 production. While the recommendations we present today are specific for the next farm bill, given the likely timeframe for the legislation, market loss assistance for 2001 is strongly supported for this production year.

There is tremendous support in the industry for inclusion of a permanent support program for agriculture. This will be debated and ultimately implemented by Congress in the next farm bill. We believe that workable opportunities exist in the form of a marketing loan program, tied to world wool and mohair prices to add a much-needed measure of stability and income during world market depressions.

Without a doubt, our agriculture lenders will be easier to work with if there is a modest safety net for these crisis periods.

The European Union continues to provide more than \$2 billion annually in government price support and subsidies to their sheep producers. The European Union maintains permanent quotas on lamb imports to their member countries. Sheep inventories in Europe have not experienced the severe decline in numbers that we have in the U.S. If we cannot change the sheep support programs of Europe and level the playing field then we absolutely must consider providing some form of safety net programs for U.S. producers.

The industry recommended wool marketing loan and loan deficiency payment program is as follows (with several critical points to make an effective marketing/support tool for producers):

- The loan rate is set at \$1.20 per pound average with a schedule of premiums and discounts to adjust for value differences. This rate would mirror the benefits of the 40-cent per pound, emergency market loss payments for the 2000 crop and the approximate costs of production as compared to the loan rate for cotton.
- Repayment is based on lower of world price or principle and interest.
- The Agricultural and Food Policy Center estimates an annual cost of \$19 million as the projected cost for wool. The projected cost for wool and mohair combined is \$22 million annually.
- The marketing loan is recourse rather than the more common non-recourse type to avoid any government stockpile of product. The industry would prefer to avoid forfeiture of product to the government. The recourse provision would work the same way with a marketing loan as the non-recourse provision, however at the end of the loan period wool and mohair could not be forfeited to the government. This recourse marketing loan would have to be redeemed by the producer, however it still provides risk management benefits. Any storage costs are the responsibility of the producer.
- A basic minimum loan rate provision provides an avenue for all producers to participate without inefficient testing of off-sort wool or small lots, which is particularly important to the farm flock sector. A sales receipt for the current year's wool would be submitted with the application form to receive the deficiency payment of the difference between a basic rate of possibly 40 cents and the sale price on a greasy basis. (Greasy wool is raw wool as sheared from the animal). We believe this is an important component to ensure delivery to all producers across the nation.

While participation rate at this level is a small percent production, the number of farms to participate is a considerable share of U.S. sheep operations. A wool pelt credit provision would be included to ensure appropriate benefit for wool sold on the lamb pelt at the minimum basic loan rate for non-tested wool.

- Existing payment limitation provisions for marketing loans and loan deficiency payments would be applicable to the wool and mohair program.
- The industry has a committee of wool experts from across the United States developing a further detailed schedule of premiums and discounts for recommended use. A schedule, as demonstrated in the enclosed examples, is absolutely workable for the wool and mohair industries.
- Modest safety net at a modest expense.

The program and repayment rate is tied to world wool market prices, which provides a key element of market orientation to the industry. Overall expectations of the wool market are for strengthening of fine wool prices as sheep inventories worldwide decline and the demand for wool products improve.

We have positive indicators of a stronger wool market in the future particularly in monitoring the Australian wool market indicator this season. Improvement is not an overnight event obviously, as the Australian stockpile is still in existence but dwindling and the overall economy for apparel consumption could decrease.

The market-oriented provisions of this recommended program lend itself to further strength of U.S. production for our domestic and the international market. Enhanced product testing and description under this program will improve our ability to market overseas; it improves the product description in order to interest more buyers of U.S. product, whether domestic or international textile companies. Loan values are tied to the world price indicators to avoid market disruptions but must move into the marketplace eventually due to the recourse provision. The loan provision provides an essential risk management function which is available nowhere else in the sheep industry for any of our production.

- Mohair would work the same as the wool program with the loan rate being set at a different rate. The loan rate recommended by Dr. David Anderson of the Texas A&M Agricultural and Food Policy Center recommends a \$5.25 lb. loan rate. While the mohair industry feels Dr. Anderson is correct in his analysis of an average before premiums and discounts, the industry recommends an average loan rate of \$4.20 lb. be considered. Enclosed within your package you will find a schedule organized by industry experts offering a recommendation of seven separate grades to ensure equitable rates are established for categorized grades.

In today's strengthening market the program would only pay a deficiency payment on three of the seven recommended grades within the schedule at today's market price. With limited mohair production worldwide and the demand strengthening for finer natural fibers, the expectations are for strengthening mohair market conditions in the future. Added to increasing market opportunities created through industry efforts, the average market prices look favorable going forward. However, the industry's rapid decline during the past 6 years necessitates a safety net to provide stability within the industry and allow time for the markets to return to profitability. The estimated cost of the mohair program within today's market conditions would result in the total cost of the program being approximately \$2.75 million annually.

The mohair industry has seen a reduction in total production of 74% since 1995, due to unstable market conditions with extreme volatility and severe drought in the region that produces over 90% of the mohair nationwide. Producers have either reduced their herd sizes or liquidated entirely to compensate for the adverse conditions. Industry experts feel confident that a modest cost-effective safety net to protect against volatile world market prices and the exchange rate problems would help stabilize the industry. All agree production volume would level off at current levels and the industry would have the security necessary to encourage growth and achieve success from its product and market developments aimed at re-building and re-vitalizing the industry.

The American Sheep Industry Association is committed to helping industry adapt to the changes in the wool market. This year we are working to advance our marketing channels, better describe wools so they can be sold electronically and will aggressively seek to replace our lost U.S. apparel and textile industries as users of U.S. wool. We are optimistic that these production and marketing programs will enhance the United States wool producer's position and price relationship to other wool producing countries. We have successfully moved during the 1990's to the international wool markets growing from 7 percent of U.S. production going overseas to 30 percent today.

The mohair industry has worked diligently during the last five years to develop and create new products and markets that will increase competition and ultimately increase the price of mohair. The primary emphasis has been directed toward adult mohair where the weakest market conditions exist. Nevertheless, time is needed to allow these efforts opportunity to generate results, which the industry feels will result in better market prices for the producer. The US, along with South Africa, produce over 90% of the world's production of mohair. Thus, the US industry faces a barrier in remaining profitable with our largest competitor due to the obvious differences in cost of production. As a result the industry has focused on developing niche products aimed at US consumers that are market friendly and reward a modest market.

We understand the changes in the U.S. textile industry will mean additional changes for U.S. wool producers and we intend to meet the challenge however, I firmly believe the marketing loan and loan deficiency payment will provide a measure of stability to allow producers to do their part.

Dr. David Anderson of the Texas A&M Agricultural and Food Policy Center has worked with the industry for more than six months to provide the in-depth analysis of the marketing loan/loan deficiency payment program for wool and mohair. The modest cost estimate of this program does not reduce however, the importance of this price support for America's sheep and goat producing farms and ranches, which is very critical to their financial stability.

During the course of discussions in the industry over the past six months regarding the Farm Bill commodity title, the ASI board of directors focused on a permanent program for wool and mohair. While recognizing that other federal commodity programs have an effect on sheep operations, that effect is less than other for livestock industries, therefore not applicable. We have taken no position on AMTA levels or loan rates for other commodities, therefore are indifferent to adjustment policy issues. Grazing provides a larger proportion of feed requirements for our market animals in comparison to other livestock species.

Mr. Chairman, my message to you and the members of the committee is that a workable safety net is needed for agriculture producers and that the sheep and goat industry must be included in that policy. Our industry is proof of what happens to an entire business when a national safety net is totally eliminated. With the elimination of the industry support, there were no price supports whatsoever for the 1995 through 1998 clips. I operated my business without any price support for four years and survived, but I can tell you the situation is tough. Over 25 percent of the U.S. sheep farms and ranches have gone out of business in this decade. Mohair production is down 74% since 1995.

We have lost industry infrastructure from trucking companies, to shearing crews, to lamb processing companies, wool warehouses and wool textile companies. We depend on these segments of our industry to produce and market our wool production. As they leave the business, it brings additional economic hardship to our family farms and ranches. The recommended program as a permanent provision will assist not only producers, but, these affiliated segments of the lamb and wool business from shearing companies to textile mills. Each of which producers depend on and in turn they depend on our production for their livelihood. Stability of the industry with the help of the program allows further investment by each affiliated business and an overall strengthening of the sheep industry.

Mr. Chairman and members of the Committee, I assure you that only the best and toughest sheep farmers and ranchers are left today. We are committed to investing in our industry, and are utilizing or investigating every tool we can find including cooperatives, processing ventures, quality improvement programs, and marketing and promotion support.

The industry has had a proposal before the U.S. Department of Agriculture for over a year. We are hopeful, that Secretary Veneman will soon publish the proposed order for industry funded marketing and are grateful for your support in this regard. We are committed to change as demonstrated by the industry adjustment plan approved by the sheep industry. However, our efforts depend on sufficient revenue from lamb and wool sales to make needed investments. I fear that continued losses in the wool market will impede our ability to make investments.

I would be remiss not to mention again to the Committee, on behalf of ASI and all of our producer members across the country, our appreciation for your support on our successful section 201 trade case and for your opposition to the amendment to the FY2000 Agriculture Appropriations Bill that attempted to single out wool producers in striking the very much needed market loss assistance payments for wool.

As your committee builds on the field hearings of last year and this series of hearings with the specifics provided by industry today in crafting the agriculture programs of the future, I commit our full assistance to you in this important undertaking.

As we move through the 2001 wool shearing season that is underway on farms and ranches throughout the country, emergency assistance is extremely important for this year given the record low prices. We sincerely appreciate the effort and leadership you have provided in both consideration of emergency assistance for this year's production and the long-term goal of a permanent safety net for wool and mohair producers.

Again Mr. Chairman I thank you and the committee for conducting these hearings and giving producers the opportunity not only to tell you of the severe economic conditions, but as importantly the chance to provide specifics to address the problem. I appreciate this opportunity and the committee's continued support of American sheep and goat industries and am pleased to answer any questions.

EVALUATING A MARKETING LOAN PROGRAM FOR WOOL AND MOHAIR

AFPC Briefing Series 2001-1

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Evaluating a Marketing Loan Program for Wool and Mohair

The wool and mohair industries have been in a period of radical transition over the last few years. A number of issues have adversely impacted wool and mohair producers. These include loss of milling infrastructure, world economic events that have severely damaged mohair export markets, increasing imports of lamb, and severe drought.

This analysis builds on an econometric model of the sheep and angora goat industries. The models estimate and project supply, demand, and price. Projections are made over the 2001-2005 period. Simulation modeling techniques are used to develop probabilities of outcomes. That allows for the development of average government costs and probabilities of costs in each year. Loan rates are developed using cotton as the model. The current cotton base loan rate of \$0.519 per pound is evaluated relative to estimates of cotton variable costs of production. That relative level of support is maintained relative to costs of production for wool and mohair. Because wool and mohair have another product (meat), typical returns for meat are subtracted out of costs to develop a wool and mohair production cost.

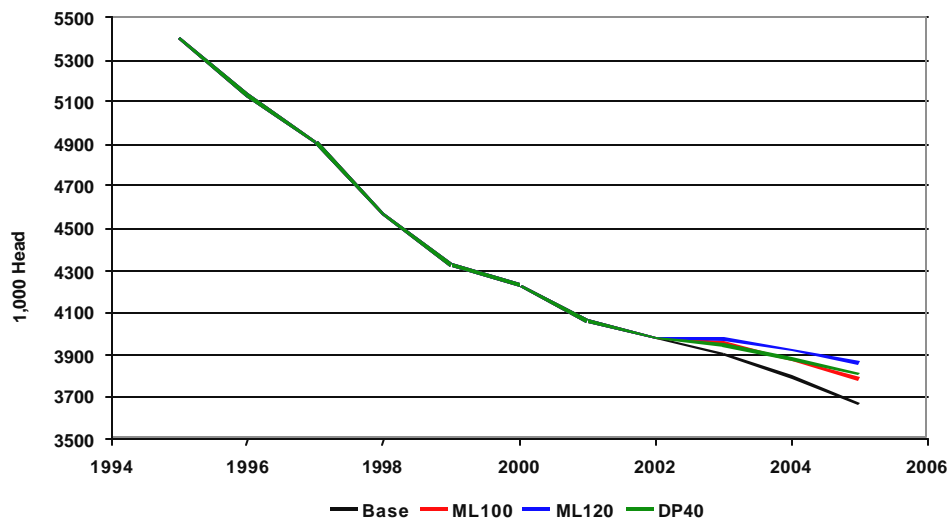
Two potential loan rates, \$1.00 and \$1.20 per pound grease for wool and two loan rates for mohair of \$5.25 and \$4.20 per pound are evaluated. These loan rates are base loan rates from which quality premiums and discounts can be taken. The wide disparity in mohair loan rates is due to a wide difference in receipts for goats sold for meat. Working with industry participants, a potential schedule of premiums and discounts has been developed and is presented in this paper. That schedule shows that it is possible to develop premiums and discounts from market information. Some fine trimming to this example would be necessary.

Results

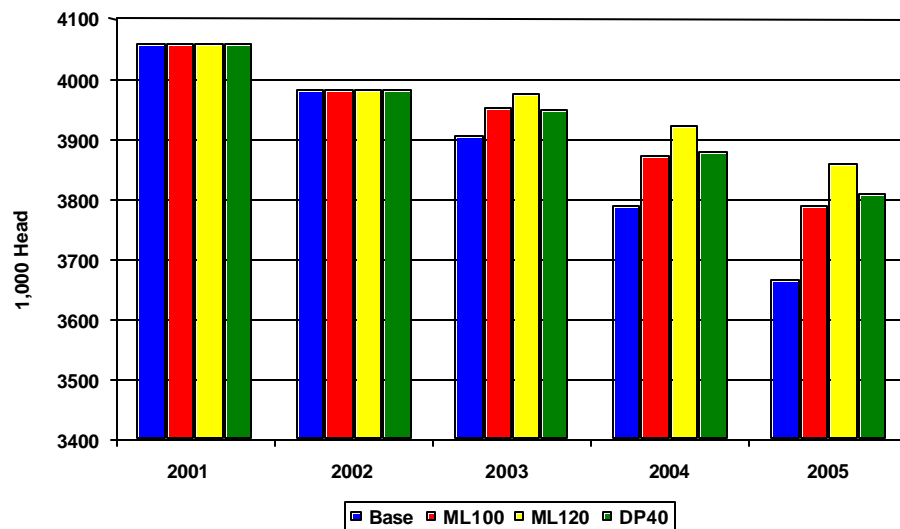
The baseline results indicate that stock ewe numbers decline to about 3.6 million head by 2005. Slaughter lamb prices remain relatively stable in the \$78 to \$80 per cwt. range. National average wool prices rise from about \$0.60 cents per pound grease to about \$0.80 per pound grease by 2003 and remain there throughout the period. Government costs under the \$1.20 per pound loan rate average about \$19 million dollars per year. Costs under the \$1.00 per pound loan rate average about \$10 million dollars per year. Government costs decline through the period as wool prices recovers.

Under the baseline, angora goats shorn stabilize decline to 334,000 head then increase to 440,000 head by 2005. Loan deficiency payments under the \$4.20 and \$5.25 loan rates for mohair average about \$1.4 and \$3.7 million per year, respectively. The premium and discount schedule around the loan rate indicates that most payments are made on the coarser adult hair which supports the breeding infrastructure base of the industry. Fine quality kid hair receives fewer payments, as it is more reliant on market prices.

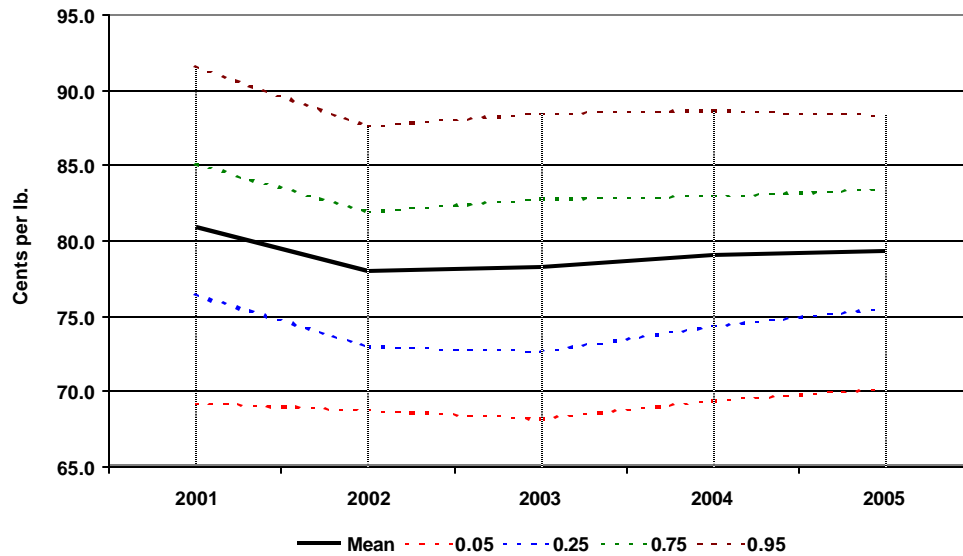
Stock Ewe Number, 1995-2005



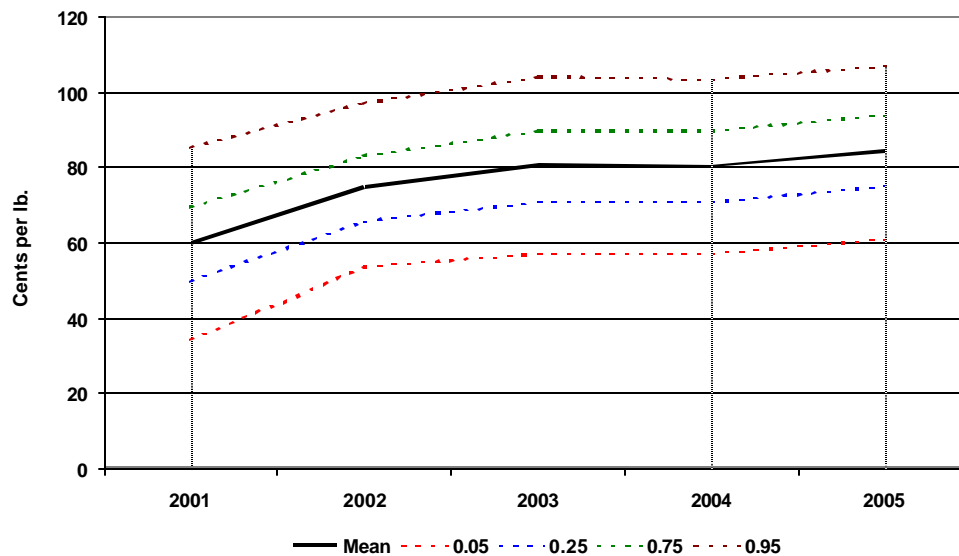
Average Annual No. Stock Ewes for Alternative Programs, 2001-2005



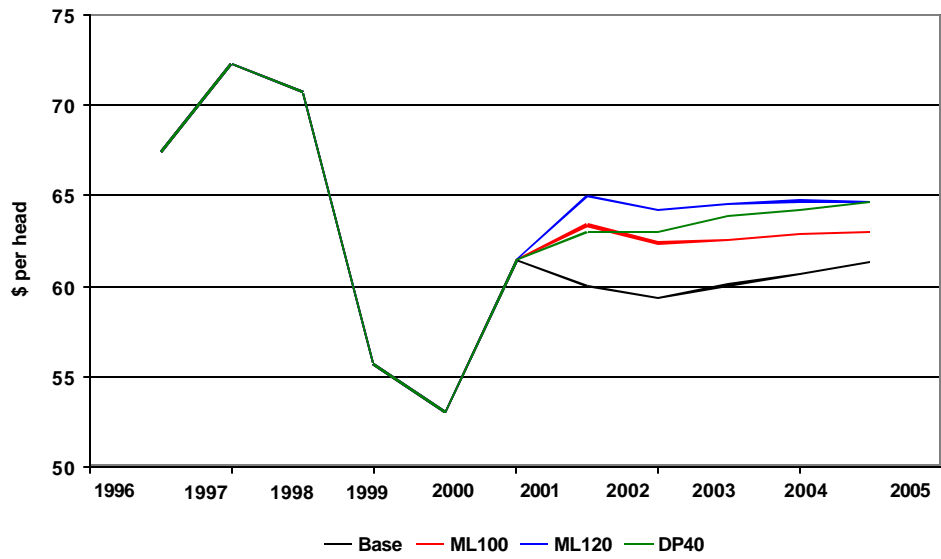
Risk Exposure for Lamb Price, 2001-2005



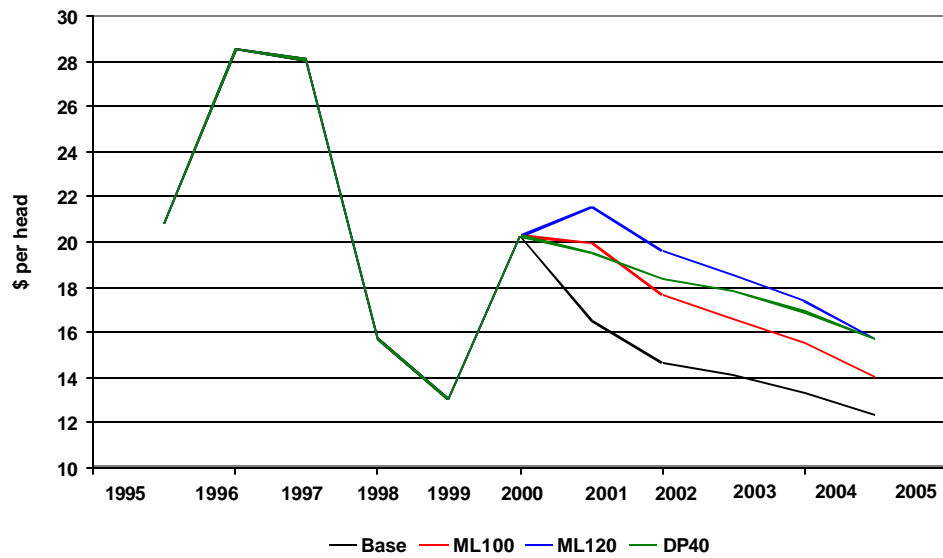
Risk Exposure for Wool Prices, 2001-2005



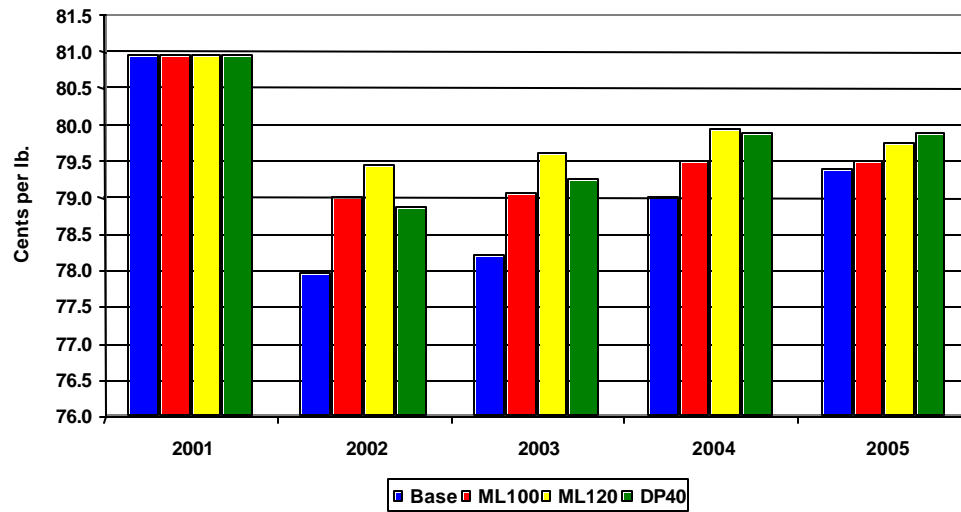
Total Returns per Ewe, 1995-2005 (\$/ head)



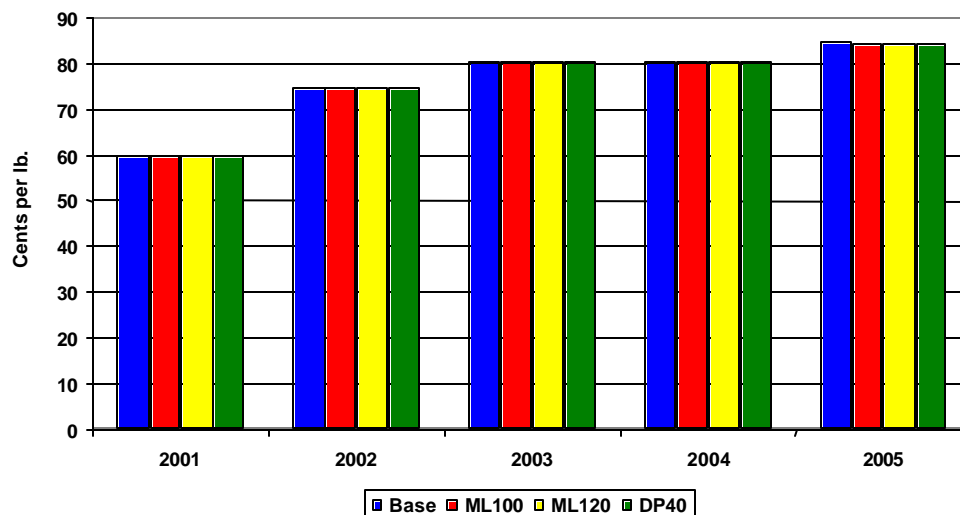
Net Returns per Ewe, 1995-2005



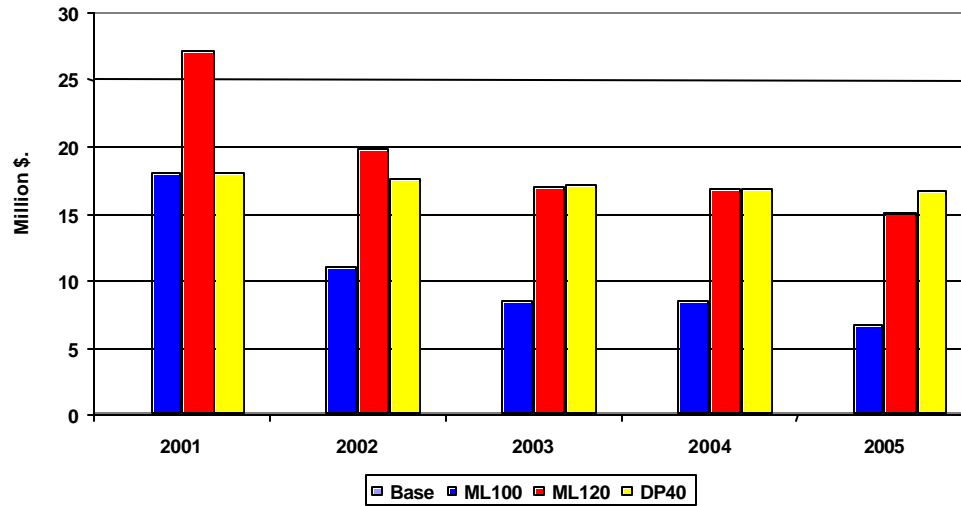
Average Annual Lamb Prices for Alternative Programs, 2001-2005



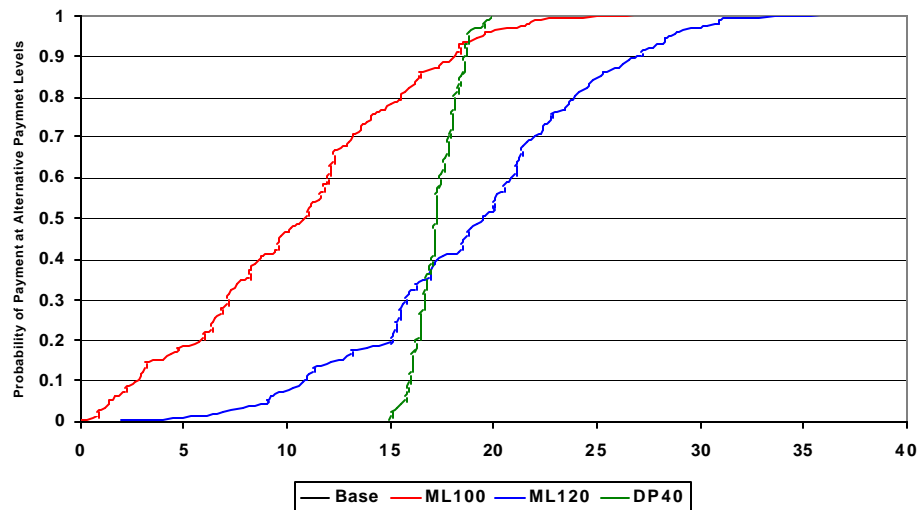
Average Annual Wool Price for Alternative Programs, 2001-2005



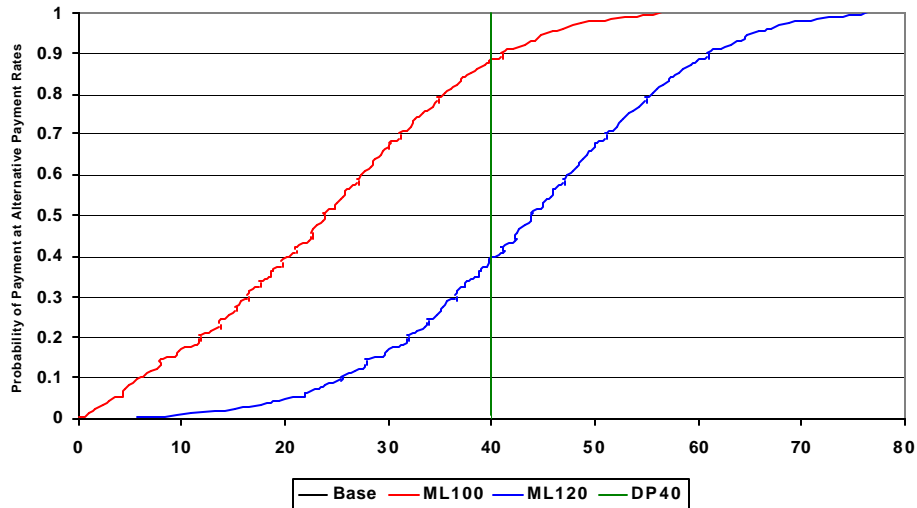
Average Annual Government Payments, 2001-2005



Average Annual Government Payments to Wool for Alternative Programs (Mil. \$)



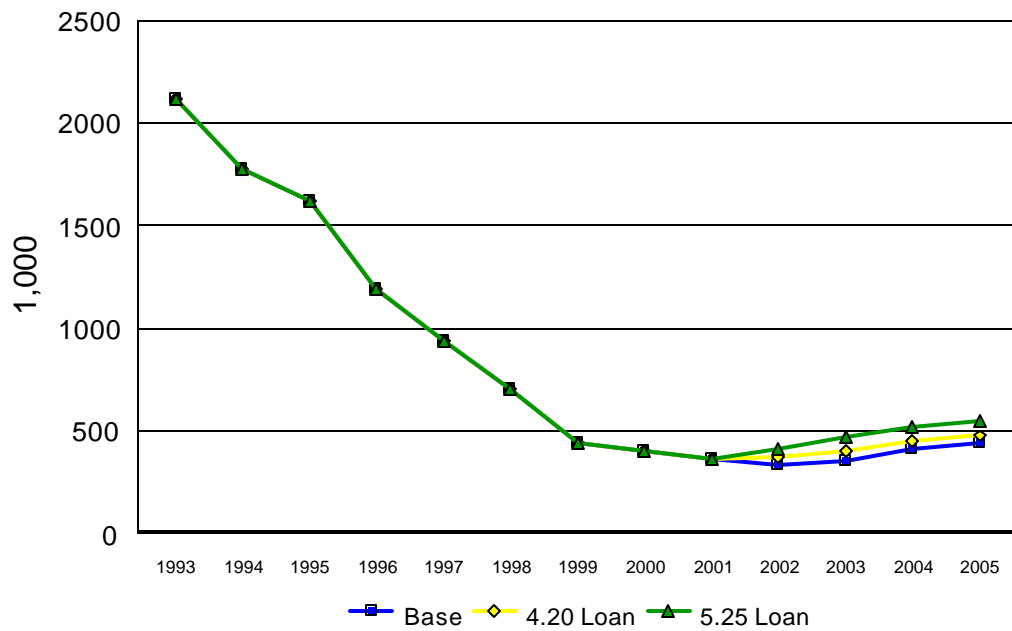
Average Annual Government Payment to Wool for Alternative Programs (Cents/Lb.)



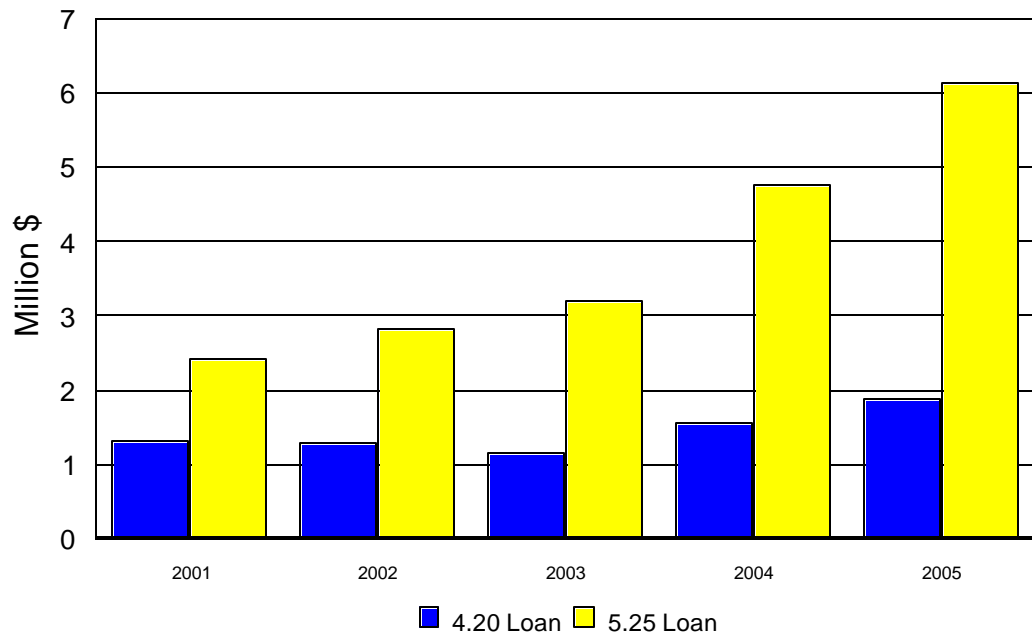
Potential Wool Premium/Discount Schedule

Micron	Loan Rate \$/lb. Clean	Loan Rate \$/lb. Clean
under 19.6	3.85	4.25
19.6-21.0	2.40	2.80
21.1-22.5	2.12	2.52
22.6-24.0	2.00	2.40
24.1-26.0	1.91	2.31
26.1-29.0	1.75	2.15
over 29.0	1.60	2.00

Angora Goats Shorn, 1993-2005



Average Government Costs, 2001-2005



Potential Mohair Premium/Discount Schedule

Micron	Category	Loan Rate \$/lb.
under 26	Fine Kid	8.00
26-28	Good Kid	6.00
28-30	Avg. Kid	5.00
30-32	Fine Yg. Goat	4.50
32-34	Avg. Yg. Goat	4.00
34-36	Fine Adult	3.25
over 36	Avg. Adult	2.75